

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

INSURANCE REGULATORY AUTHORITY

FOR THE YEAR ENDED
30 JUNE, 2021



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

23 MAR 2022

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INSURANCE REGULATORY AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2021

Prepared in accordance with the Accrual Basis of Accounting Method under
the International Public Sector Accounting Standards (IPSAS)

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No.	Designation	Name
1.	Commissioner of Insurance and Chief Executive Officer	Mr. Godfrey Kiptum
2.	Ag. Chief Manager, Technical	Mr. Kalai Musee
3.	Corporation Secretary and Chief Manager Legal Affairs	Ms. Diana Sawe
4.	Chief Manager, Policy, Research and Development	Mr. Robert Kuloba
5.	Ag. Chief Manager, Finance	CPA Esther Musyoki

(e) Fiduciary Oversight Arrangements

Section 3 B of the Insurance Act establishes the Board of Directors that is charged with fiduciary oversight of the Authority. In the discharge of its functions, the Board has put in place the following Committees:

- i. Technical, Research and Compliance Committee
- ii. Finance and Administration Committee
- iii. Human Resource Committee
- iv. Audit, Risk Management and Corporate Governance Committee

Further, the Insurance Act empowers the Board of Directors to delegate to any Committee of the Board the exercise of any of the powers or performance of the Authority's functions. Adhoc Committees may be established by Board resolution for purposes of executing an assignment.

(f) Physical Address

Insurance Regulatory Authority
Zep- Re Place Longonot Road
Upper Hill
P.O Box 43505 – 00100
Nairobi, Kenya

(g) Contacts

Tel: (254)-020-4996000, Mobile: 0719 047000
Fax: (254) -020- 2710126
Email: commins@ira.go.ke
Website: <http://www.ira.go.ke>



(h) Bankers

National Bank of Kenya
Harambee Avenue Branch
P.O Box 72866- 00200
Tel 2828000
Nairobi, Kenya

NCBA Bank
Upper hill Branch
P.O Box 44599-00100
Nairobi, Kenya
Tel 4948000

KCB Ltd
Capitol Hill Branch
P.O Box 48400-00100
Nairobi, Kenya
Tel. 3270000

Co-operative Bank of Kenya Ltd
Upper hill Branch
P. O Box 48231-00100
Nairobi, Kenya
Tel. 2735092

(i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100
Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112-00200
Nairobi, Kenya



THE BOARD OF DIRECTORS



Hon. Abdirahin H. Abdi, MGH
Chairman
MBA, BSc (Finance)
Date of Birth: 26th August, 1969

Hon. Abdi is the Chairman of the Board of Directors and is serving a second term. Under his leadership, the Authority has realized various milestones in the supervision and regulation of insurance business in the country. Before appointment to the Board, he was the Speaker of the East African Legislative Assembly (EALA) where he was a member for 10 years. As a speaker, he presided over all Assembly meetings and rulings on all decisions that required such edict of the position. He serves in various Boards and brings on board a wealth of experience in Strategic Business and Finance Management.



Mr. Godfrey Kiptum, MBS
Commissioner of Insurance & Chief
Executive Officer
MPPM, MBA, BA, CII, FLMI,
Dip.HRM
Date of Birth: 5th August, 1970

Mr. Kiptum is the Commissioner of Insurance & Chief Executive Officer. Prior to his appointment, he was the Authority's Chief Manager for Human Capital and Administration- a position he held for 10 years and implemented various Human Resource Systems and Processes.

He sits on the Boards of the Retirement Benefits Authority and Policyholders Compensation Fund. He is also a Trustee of the College of Insurance and Executive Committee of the International Association of Insurance Supervisors.



Mr. Kennedy Ogendi Ondieki
Member
MBA, BA, CPA(K), CPS
Date of Birth: 1st February 1967

Mr. Ondieki is an Alternate Director representing The National Treasury in the Board. He is the Director of Investments, in charge of Government Investments and Public Enterprises. He is responsible for developing strategic objectives and policies relating to the overall and fiscal/financial oversight and management of state corporations.

Mr. Ondieki has long cherished career in the public service spanning over 25 years. He sits on the Finance & Administration; and the Audit, Risk Management & Corporate Governance Committees of the Board.



Mr. Nzomo Mutuku
Member
MA, BA

Date of Birth: 9th December, 1969

Mr. Mutuku is the Chief Executive Officer of the Retirement Benefits Authority. Previously he was the Acting Director, Financial and Sectoral Affairs Department at the National Treasury and Planning where he was charged with financial sector development including financial inclusion, efficiency and stability as well as sectoral policy issues including regional integration and climate finance.

Mr. Mutuku serves in the Technical, Research & Compliance and Audit, Risk Management & Corporate Governance Committees of the Board.



FCPA Wyckliffe M. Shamiah
Member

MBA, BA, CPA

Date of Birth: 3rd September 1969

Mr. Shamiah is the Chief Executive of the Capital Markets Authority. He was previously the Director of Market Operations. He also sits on the Financial Stability Board Regional Group of Sub-Sahara and is the Chairman of the Market Supervision and Risk Management sub-committee of the East African Securities Regulators Forum. He is a member of the ICPAK Council, a position he has held since 2009.

Mr. Shamiah serves in the Human Resource and Finance & Administration Committees of the Board.



Mr. Matu Mugo
Member

MBA, B. Com, CPA

Date of Birth: 26th November, 1972

Mr. Mugo is the Assistant Director of Banking Supervision at the Central Bank of Kenya (CBK). He represents the Governor of the CBK on the Board. At the Bank, he leads teams responsible for the review and development of policies to promote safe, affordable and inclusive financial services. He has been involved in the development of legal and regulatory frameworks for sharia compliant banking, microfinance, digital financial services, credit information sharing and agency banking.

Mr. Mugo serves in the Human Resource and Finance & Administration Committees of the Board.



Ms. Alice M. Njoroge
Member
BA, ACII, ACI Arb.

Date of Birth: 8th January, 1968

Mrs. Njoroge's second term on the Board as a nominee of the Insurance Institute of Kenya expired on 5th June 2021. She is an insurance professional with experience spanning more than 20 years of active practice. She has held senior managerial positions in several insurance companies locally and has been involved in various industry technical committees.

Mrs. Njoroge Chairs the Human Resource Committee of the Board and serves in the Technical, Research & Compliance Committee.



Ms. Joyce K. Muchena
Member

MA, BA, Dip. Human Rights, H.
Dip. Psychological Counselling
Date of Birth: 15th October, 1972

Ms. Muchena's second term as an independent member of the Board expired on 5th June 2021. She has over 16 years' experience in strategic planning, policy formulation, socio-political conflict analysis, human resource management and project management.

Ms. Muchena Chairs the Finance & Administration Committee and serves in the Technical, Research & Compliance Committee of the Board.



Mr. Paul K. K. Cheboi
Member

Ph.D. Candidate, MBA, BSc, PG
Dip.
Date of Birth: 19th March, 1968

Mr. Cheboi's second term as an independent member the Board expired on 5th June 2021. He has vast experience in management of educational institutions and manufacturing companies both in the private and the NGO sectors. He has over 17 years' experience in administration, finance, planning, academic affairs, public relations, marketing and quality assurance.

Mr. Cheboi Chairs the Audit, Risk Management & Corporate Governance Committee and serves in the Human Resource Committee of the Board.



*Mr. Douglas Kailanya
Member*

MBA, B. Com, CPA

Date of Birth: 28th November, 1965

Mr. Kailanya's second term as an independent member of the Board expired on 5th June 2021. He is a professional accountant with over 20 years' experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management.

Mr. Kailanya Chairs the Technical, Research & Compliance Committee and serves in the Audit, Risk Management & Corporate Governance Committee of the Board.



*Hon. Ibrahim Abdi Saney
Member*

*B.Sc. Natural Resource
Management (First Class Hons.)
Egerton University.*

Date of Birth: 1975

Hon. Saney is an independent director serving his 1st term on the Board. He is the immediate former Member of Parliament for Wajir North Constituency. Hon. Saney is experienced in financial planning and expenditure reviews, as well as establishing strategies, policies, procedures, controls and reporting systems that maximize the impact of state-funded projects and programmes for service delivery.

He is currently a student of Law and Criminal Justice with a goal to provide transformational leadership in the access and fair administrative of justice for all.

Hon. Saney serves in the Human Resource and Finance & Administration Committees of the Board.



*Ms. Diana Sawe Tanui
Corporation Secretary and Chief
Manager Legal Affairs*

LLB, Dip (KSL), CPS, FCI Arb

Date of Birth: 5th October, 1982

Ms. Diana Sawe is the Corporation Secretary and Chief Manager Legal Affairs at the Insurance Regulatory Authority (IRA). She previously worked as the Authority's Senior Legal Officer.

She is a Certified Public Secretary, an Advocate of the High Court of Kenya, an Arbitrator, a trained Governance Auditor, Commissioner for Oaths and Notary Public.



MANAGEMENT TEAM

The key management personnel who held office during the period ended 30 JUNE, 2021 were;

**Commissioner of Insurance &
Chief Executive Officer**



Mr. Godfrey Kiptum
MPPM, MBA, BA, CII, FLMI, Dip.
HRM

**Chief Manager Policy, Research and
Development**



Mr. Robert Kuloba
MA, BA

**Corporation Secretary and Chief
Manager Legal Affairs**



Ms. Diana Sawe Tanui
LLB, Dip (KSL), CPS(K), FCI Arb

Ag. Chief Manager Technical



Mr. Kalai Musee
MSc, BCom, FIIK, FCII, ACI Arb

Ag. Chief Manager Finance



CPA Esther Musyoki
MBA, BCom, CPA(K)

**In Charge Human Capital &
Development**



Naomi Njoroge
MBA, BA, CHRP(K), IHRM

<p>Manager Procurement</p>  <p><i>Mr. Felix Chelimo</i> MBA, BA, MCIPS</p>	<p>Manager Consumer Protection</p>  <p><i>Mrs. Monicah Thirima</i> MBA, LLB, ACII, Diploma KSL</p>
<p>Head Corporate Communication</p>  <p><i>Ms. Noella Mutanda</i> MA, BA, Dip (Journalism), M-PRSK, M-CIPR</p>	<p>Head Consumer Education</p>  <p><i>Ms. Anne Chelagat</i> MBA, BCom, AIIK, ACII</p>
<p>Manager ICT</p>  <p><i>Mr. Eric Kisilu</i> MBA, BSc., Dip IMIS, CISM</p>	<p>Manager, Internal Audit and Risk Management</p>  <p><i>CPA Joan Kirika</i> MBA, BCom, CPA(K), CISA, CIA</p>

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Authority's report for the year ended 30 JUNE, 2021. The year under review was highly challenging however the Authority strived to create value amidst an increasingly demanding economic environment.

The insurance industry plays a pivotal role in enabling the country to achieve financial security by improving service delivery to the wider population. To this end, the Authority conducted a mid-term review of our 2018- 2022 Strategic Plan

IRA's strategic plan is anchored on four Key result areas that are aligned to the national development goals outlined in Big Four Agenda, Medium-Term Plan (MTP III) and Vision 2030. The Authority uses the Key Result Areas as a blueprint to achieve the objectives of the insurance industry in Kenya.

1. Regulation and supervision for a safe, fair competitive and stable insurance market to achieve affordable and reliable insurance products
2. Policy and market development for inclusion and enhanced access to insurance products and services
3. Consumer protection and education for access to relevant information for informed decision making; and
4. Institutional capacity for efficiency and effectiveness in service delivery.

In the next financial year, the Authority will embark on developing the next Strategic Plan for the period 2023-2027.

Strategic priorities for the Board during the year

Globally, the COVID-19 pandemic has had a significant impact on people and economies worldwide; the effective closure of parts of the economy led to a dramatic reduction in business globally which tested the resilience of the sector.

According to the World Bank, countries in the African region are continuing to weather the storm. Economic activity in Sub Saharan Africa is estimated to have reduced by 2% in 2020, reflecting a slower than expected spread of the virus and lower Covid-19 related mortality in the region.

Despite the pandemic, there seems to be cautious optimism for improving conditions in the year 2021 and beyond. In fact, the global insurance sector has demonstrated resilience aided by monetary and fiscal support measures.

Protecting the health and safety of our people remained IRA's top priority during the year. The Authority supported the internal measures taken by Management to protect staff, such as the alternative working arrangements and safety protocols in addition to the industry wide measures that greatly supported the economy.

We continue to laud the efforts of the Government and industry players who supported the Authority in mitigating the effects of Covid-19 through cash donations and provision of free insurance services to the frontline health workers.

Overall Performance

To efficiently regulate the insurance sector adequate resources are required. The Authority has an adequate and sustainable revenue base to enable it comprehensively dispense its mandate. Insurance premium levy income for the year under review increased from KES. 1,709,189,760/- in the Financial Year 2019/2020 to KES.1,957,871,637/- in the 2020/2021 Financial Year.

We are hopeful that with the initiatives we have put in place to promote industry development, the revenue base will also increase and enable us meet and exceed our targets.

The industry has seen continuous growth in the Life business resulting from policies shared with the National Treasury for review and adoption to enhance industry operations. Over the last two years, we have also implemented measures to drastically reduce outstanding premiums owed to insurers.

We remain committed to ensuring that the Authority continues to improve on all its performance-measurement parameters. Notwithstanding the destabilizing impact of current realities, the Authority has put in place measures and strategies to leverage the numerous opportunities created by the situation.

Prospects in the insurance market in Kenya

Following an initial financial market shock of significant magnitude, the industry saw emerging trends that included mergers and acquisitions, changing customer demands for flexible pricing and risk optimization, issuance of IFRS17 on insurance contracts, increased use of fintech solutions and e-commerce. This increased a demand for modernization of the insurance landscape which is characterized by microinsurance and insuretech solutions among others.

These new trends are in line with the changing market requirements and customer needs dictated by the economic environment. This presents an opportunity for the industry to tap into the trends and ensure customer satisfaction is achieved.

The Authority also continued to provide support for the roll-out of the shift to Risk Based Supervision (RBS) which resulted from legislation of the Risk Based Capital (RBC) requirements. This move benchmarks with global best practice and is in line with the Authority's focus to promote insurance while protecting the insured.

Appreciation and conclusion

As an Authority, our achievements thus far would not have been possible without the support, understanding and cooperation of all our partners. I thank the members of Board for their insights and guidance in ensuring that the Authority's performance is above par.

I am grateful to the management and staff for their commitment and dedication which has seen the authority remain resilient for the period 2020-2021. I also extend our sincere appreciation to the Cabinet Secretary in charge of the National Treasury and Planning, the insurance industry players, policyholders and all sector stakeholders for the continued support and confidence in the Authority.

I would like to assure all our stakeholders that we are committed to ensuring that our regulatory structures enable and promote efficiency of the insurance industry in the country.



Hon. Abdirahin H. Abdi, MGH
Chairman
Board of Directors – Insurance Regulatory Authority

REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction

I am pleased to present this report highlighting wins realised and lessons learned for the year 2020/2021. The past year was unprecedented due to the Covid-19 Pandemic which tested the Authority's resilience and the insurance industry's ability to respond with agility.

Industry captains globally were forced to rapidly change course and adjust accordingly to the needs of their teams as well as their customers. This was in addition to adhering to government directives and ministry of health protocols put in place to aid with social and economic recovery.

Through consistent monitoring and evaluation of the situation, the Authority has remained responsive and offered solutions in line with Government policy. This has maintained stability to the insurance industry which is one of the key pillars of the financial services sector, central to the country's economic development matrix.

Operating Environment

The Authority's mandate is to protect policyholders while promoting insurance. This requires a sound regulatory and supervisory infrastructure that maintains a safe, fair, and stable insurance market.

In the period under review, IRA continued to reinforce regulations on Anti-Money Laundering, Micro-insurance, Bancassurance among others. We were also keen to revisit set guidelines for conducting insurance business in the country by providing a framework for market conduct, claims settlement and corporate governance.

Covid-19 Pandemic

COVID-19 worldwide pandemic outbreak is, without doubt, the biggest crisis faced by humanity in the 21st Century so far. The Authority has played its part in mitigating the pandemic by confronting the shifts brought about by the crisis within the Insurance sector.

At the outset of the COVID-19 pandemic, the Authority issued two guidance notes to the industry to guide on how to deal with the pandemic. Additionally, the industry has been settling COVID-19 related claims. Beyond that, it has also developed products to cover COVID -19, including products targeted at frontline workers.

The industry has also contributed towards the national government COVID-19 fund. Additionally, insurers allowed payment of premiums in instalments to ease the burden on the policyholders.

While it is difficult to discuss a post-Covid-19 era, the outlook for the insurance sector is an awakening to varied issues such as exclusions of pandemics and epidemics, and vaccine in insurance contracts. The issue of vaccines and home-based care for Covid-patients in the absence of availability of hospital beds have accelerated innovation in underwriting clauses for insurers.

Future Outlook

Financial Services sector reports reveal that growth in the insurance industry will come from new service-based models, innovative products, and a greater focus on prevention. With increased competition and market saturation, selling insurance products must be complemented by competitive product design and a customer-first approach.

For industry players to grow their revenues, they will need to consider how to deepen penetration, and study existing customer data to gain insights on how to further personalise the products. This fit-for-purpose market operating model demands a shift from short-term quick fix solutions to long-term approaches to ensure customers fully understand the risks they need to have covered.

There's already advances made in development of affordable micro-insurance products that are conveniently accessible from the comfort of one's own home either online or via mobile phone. This is laudable considering the sector's reputation which projects a stoic and rigid persona slow to respond to changing customer needs.

In the past year, the Authority supported efforts to raise awareness on the requirements of IFRS-17 amongst industry players. IRA projects that the new IFRS-17 accounting standards developed to harmonize reporting within the industry, will bring with it significant changes that will positively impact insurers and policyholders. One key benefit derived from IFRS-17 is increased transparency which comes with enhanced disclosures and full implementation of Risk-Based Capital.

We encourage the sector players to embark on impact assessments of the new standard and develop a road map on the way forward.

Consumer protection

To maintain the viability, integrity and stability of the insurance industry, the

Authority must safeguard policyholders' rights and interests. As part of our mandate, we are committed to consumer education outreach activities to increase uptake of insurance nationally.

While Government restrictions on movement hindered our plans to hold open days across the counties, we hosted at least four. We also continued to refine our framework to 'Treat Customer Fairly' by leveraging technology to centralise complaints reporting (complaints@ira.go.ke).

Although there is still much to be done, customer focus remains a key priority and we are on the journey towards exceeding expectations.

Appreciation and conclusion

On behalf of the management and the entire staff, I thank the Board for its guidance and direction. I am grateful to the stakeholders for their continued support and contribution to our success during the past year.



Godfrey Kiptum
Commissioner of Insurance & Chief Executive Officer

REVIEW OF THE AUTHORITY'S PERFORMANCE FOR THE FINANCIAL YEAR 2020/2021

The Authority's strategic plan is anchored on the national development agenda as set out on the Kenya Vision 2030 with the following as the Key Result Areas (KRA's) and objectives;

- i. KRA 1: Regulations and Supervision: *to ensure a safe, fair, competitive and stable insurance market*
- ii. KRA 2: Policy and Market Development: *promote inclusion and enhance access to insurance in Kenya*
- iii. KRA 3: Consumer Protection and Education: *to ensure application of up-to-date consumer protection policies and, an empowered populace to make informed decisions on insurance matters.*
- iv. KRA 4: Institutional Capacity: *to ensure effectiveness and efficiency in service delivery*

The Strategic Plan is implemented through the annual corporate work plan which is a consolidation of activities planned to be undertaken during the financial year and cascaded to various functional Heads of Divisions/Sections. Activities in the work plan at Divisional/Section level are informed by the strategic plan. However other activities in the work plans are from the Performance Contract targets for 2020/2021 FY.

Continuous monitoring is done to assess the implementation of the strategic plan as per the framework provided in the plan. Monitoring is a continuous process that aims to measure progress towards achieving the strategic plan targets; inform corrective action where necessary and; to inform mid-term review of the plan.

During the financial year 2020/2021, the *Authority* achieved its performance targets set for the FY 2020/2021 period for its four KRA's and strategic objectives, as indicated below:

No. KRA	Strategic Focus Areas	Expected Outputs/Activities	Achievement	
1.	<p>a) Strengthen legal and regulatory framework</p> <p>b) Ensure a fair, safe and stable insurance and reinsurance industry</p>	<p>i. Reports of Policy briefs</p> <p>ii. Legislative proposals</p> <p>iii. Guidance note</p> <p>iv. Level of compliance</p> <p>v. Level of enabling legislations</p> <p>Review of legal framework on statutory management and liquidation</p>	<p>Implement RBS framework</p> <p>Enforce provisions of the Insurance Act & Enforcement of the Supervision</p> <p>Review of enabling legislations</p> <p>Review legal framework on statutory management and liquidation</p> <p>Conduct regulatory impact assessment</p> <p>Formulate stability indicator dashboard.</p> <p>Build capacity on macro-prudential surveillance</p>	<p>Implementation of RBS is continuous to include training on Risk Based Supervision</p> <p>Enforcement of the Insurance Act is done continually</p> <p>Held various consultative meetings</p> <p>Regulatory impact assessment on claims management was concluded in October 2019 and final report prepared.</p> <p>Capital Adequacy Ratio (CAR) reports done on quarterly basis</p> <p>12 staff trained on macro-prudential surveillance</p>
2.	<p>a. To promote an inclusive insurance industry</p>	<p>i. No of reports submitted</p> <p>ii. Policy briefs</p> <p>iii. Level of implementation</p>	<p>Medical insurance coverage study.</p> <p>Implement micro insurance surveillance</p>	<p>Study on medical insurance was conducted and final survey report developed</p> <p>Insurance Act was amended</p>

No. KRA	Strategic Focus Areas	Expected Outputs/Activities	Achievement
	<p>iv. Legislative proposals</p> <p>b. To advise the government on insurance related matters</p> <p>c. To facilitate development and adoption of emerging trends in the insurance industry</p>	<p>i. Framework for policy research</p> <p>ii. Big Four agenda consultative meetings</p> <p>i. Number of Actuarial Scholarships</p> <p>ii. Number trained on reinsurance</p>	<p>in 2019 to include micro insurance regulations. Implementation of micro insurance framework is done continuously</p> <p>Policy papers developed for each survey conducted by the Authority</p> <p>5,487 people were trained through the ECOP program. The reinsurance trainings were conducted through the Zep Re Academy</p>
3 Consumer Protection and Education	<p>a. To protect the interests of the insurance policyholders and beneficiaries</p>	<p>i. No. of Reports</p> <p>ii. Level of compliance</p> <p>Measure industry compliance with TCF outcomes</p>	<p>Self-assessment survey for 2020/21 FY determined the compliance index to be at 96%.</p>

No.	KRA	Strategic Focus Areas	Expected Outputs/Activities	Achievement
4	Institutional capacity	<p>b. To increase level of awareness about insurance</p>	<p>i. Number of social media followers ii. Local radio campaigns iii. Mobile clinics and road shows iv. Number of county fairs, shows and exhibition</p>	<p>28,708 followers on Facebook and twitter Conducted TV campaigns in both English and Kiswahili languages through Citizen TV, KBC and KTN. conducted radio campaigns in 4 languages: Luhya, Kalenjin, Kikuyu and Luo.)</p>
	<p>a. To strengthen corporate governance practices</p>	<p>i. Number of briefing sessions ii. Board performance evaluation report</p>	<p>Sensitize Board members</p>	<p>Sensitization of Board Members done on quarterly basis</p>
	<p>b. To strengthen Human Resource Capacity</p>	<p>i. Optimal staff establishment in place ii. Employee satisfaction index</p>	<p>Review organizational structure Conduct Occupational Safety and Health (OSH) Audit</p>	<p>Structure was reviewed and approved SCAC in the 2020/2021 FY. OSH audit conducted</p>
	<p>c. To enhance service delivery</p>		<p>i. Automation index ii. Customer</p>	<p>Implement the Authority's ICT Security policy Audit on implementation of the Authority's ICT security policy is continuous.</p>



No. KRA	Strategic Focus Areas	Expected Outputs/Activities	Achievement
	d. To improve mobilization, utilization and management of financial resources	satisfaction index i. Approved budget ii. Number of partners iii. Level of utilization	Implement QMS policies and procedures Mobilize resources to finance development programmes The Budget for 2020/2021FY was approved and is being implemented.

Overall Performance

In rating performance of the Authority during the financial year, the model adopted is the guidance in the 17th cycle performance contracting guidelines. Using the data from the figure's performance above and the best estimates based on the above criteria, the overall performance during the period under review is **2.8281** which is Very Good compared to 2.9318 (as validated by the Public Service and Performance Management Unit) realized in previous financial year.

CORPORATE GOVERNANCE STATEMENT

The Authority is a State Corporation established under the Insurance Act and whose primary activities are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

a) Board Composition

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. The composition of the Board of the Authority in the year under review was as follows:

Name	Membership	Profession
Hon. Abdirahin H. Abdi	Chairman	Business Development Expert & Legislator
Mr. Godfrey K. Kiptum	Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Mr. Nzomo Mutuku	Chief Executive Officer, Retirement Benefits Authority	Economics & Financial Services Regulation
Mr. Wyckliffe Shamiah	Chief Executive Officer, Capital Markets Authority	Economics & Accounting
Mr. Matu Mugo	Representing, Governor Central Bank of Kenya	Finance & Accounting
Mr. Kennedy Ondieki (Appointed 17.07.2020)	Representing, Cabinet Secretary, The National Treasury & Planning	Economics & Management
Ms. Alice M. Njoroge (Retired 05.06.2021)	Member, Nominee Insurance Institute of Kenya	Management & Insurance
Mr. Douglas Kailanya (Retired 05.06.2021)	Member	Finance, Management & Accounting
Ms. Joyce K Muchena (Retired 05.06.2021)	Member	Strategic Planning & Management
Mr. Paul K K Cheboi (Retired 05.06.2021)	Member	Academic Affairs, Management & Planning
Hon. Ibrahim A. Saney (Appointed 16.12.2020)	Member	Environmental Science, Legal & Legislator

Members of the Board other than *ex-officio* members hold office for a period of three (3) years and are eligible for re-appointment for another term.

The Board Members represent an appropriate skill, experience, gender, diversity and geographical mix to facilitate effective execution of the Authority's mandate.

The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office.

The term of four Board Members expired on 5th June 2021 having served for two terms. The Authority awaits appointment of new Directors by the Cabinet Secretary for the National Treasury and Planning.

There has been no removal of a serving director.

Board Committees

The Board has delegated its Authority to the standing Committees to enable it effectively carry out its mandate. The Committees of the Board have respective Terms of Reference and were constituted as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration; and
- (iv) Human Resource.

The Board is in the process of developing the Board Committee Charters in line with new governance requirements.

b) Board Attendance

A record of attendance of Board Meetings and Board Committee Meetings was kept during the period under review. The provisions of the Insurance Act, the State Corporations Act and the Mwongozo Code of Governance for State Corporations pertaining to attendance and absence from meetings have been adhered to.

c) Conflict of Interest

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation. The Corporation Secretary maintains a register of conflicts of interest which is updated where a conflict is declared.

d) Whistle Blowing Policy

The Authority has provided for protection of whistle blowers under its Code of Conduct and Ethics as well as its Whistleblowing Policy so as to ensure safeguard of the identity and safety of whistleblowers.

e) Statement of Compliance

The Authority conducted its business affairs in full compliance with all applicable laws, rules, regulations, relevant executive orders and circulars.

f) Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. The Board conducted a mid-term review of its Strategic Plan for the period 2018-2022 and the same is under implementation.

The Board ensures that the Authority espouses proper corporate governance practices and is also responsible for managing the Authority's risks. The Board recognises and is committed to delivering its responsibility to all its stakeholders.

g) Board Induction and Training

The Board development programmes during the period under review were aligned to training needs however the same was not fully implemented owing to restrictions occasioned by the COVID-19 Pandemic. The Directors attended the following board development programmes:

Training Institution	Training Programme
1. RBA & Zamara (IRA) Staff Pension Scheme	House your Members' New Mortgage Regulations
2. Institute of Internal Auditors	Effective Corporate Oversight Workshop
3. Institute of Certified Public Accountants	36 th Annual Seminar
4. The Institute of Directors	The Diligent Director Programme
5. The Insurance Institute of Kenya	IIK Stakeholders & Insurance Executives Webinar
6. Centre for Corporate Governance	222 nd Corporate Governance Training
7. Institute of Internal Auditors	Workshop on Governance & Leadership in Disruptive Environment: Leveraging Internal Audit for Success
8. Harvard Kennedy School	Leadership & Character in Uncertain Times
9. Institute of Certified Public Accountants	Corporate Governance & Leadership Conference
10. Harvard Kennedy School	Persuasive Communication: Narrative, Evidence & Impact
11. Insurance Institute of Kenya	Building Resilience & Mitigating Risks to achieve Growth and Sustainability
12. OESAI	Global Insurers & Reinsurance Leaders 2020(GIRLs) Forum

h) Board Evaluation

The Board schedules its annual evaluation exercise in its work plan in consultation with the State Corporations Advisory Committee (SCAC) which conducted the exercise on Friday the 4th of June 2021.

i) Board Remuneration

The Board is remunerated in accordance with the approved Terms and Conditions of Service prescribed under various Government Circulars.

j) Corporation Secretary

The Board is assisted by a qualified, competent and experienced Corporation Secretary. The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally.

k) Separation of Roles

The role of the Board is separated from that of the Management; the office of the Chairperson and that of the Chief Executive Officer are held by different persons; and the office of the Chief Executive Officer and that of the Corporation Secretary are held by different persons.

l) Social Responsibility

Being conscious of the Authority's responsibility to the society, the Board is committed to operate ethically and promote corporate social responsibility and investments in accordance with its CSR Policy.

m) Board Attendance

A board meeting attendance register is maintained for all board committee and board meetings. Where a member did not attend any meeting, an acceptable apology was duly received by the Chairman and recorded by the Corporation Secretary. The Chief Executive Officer/Commissioner of Insurance is an ex officio member of all Board Committees. The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties. The board meetings attendance matrix is indicated below:



KEY:

- ¶ - This is a member of respective Committee
- * - This is not a member of the Committee but in attendance
- # - Member retired/was appointed mid-year thus no attendance in full
- TRC** - Technical, Research and Compliance Committee
- FAC** - Finance & Administration Committee
- ARCC** - Audit, Risk Management and Corporate Governance Committee
- HRC** - Human Resource Committee

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC
Hon. Abdirahin Abdi	Chairman	Membership	¶				
		Attendance	10/10				
Mr. Godfrey Kiptum	CEO	Membership	¶	¶	¶	¶	¶
		Attendance	10/10	6/6	6/6	4/4	4/4
Mr. Wyckliffe Shamiah (w.e.f. 01.01.2020)	Member	Membership	¶		¶	-	¶
		Attendance	10/10		6/6		4/4
Mr. Matu Mugo	Member	Membership	¶		¶		¶
		Attendance	6/10		5/6		3/4
Mr. Nzomo Mutuku	Member	Membership	¶	¶		¶	
		Attendance	10/10	6/6		4/4	
Ms. Alice Njoroge	Member	Membership	¶	¶			¶
		Attendance	10/10	6/6			4/4
Mr. Douglas Kailanya	Member	Membership	¶	¶		¶	
		Attendance	10/10	6/6		4/4	
Ms. Joyce Muchena	Member	Membership	¶	¶	¶		
		Attendance	10/10	6/6	6/6		
Mr. Paul Cheboi	Member	Membership	¶			¶	¶
		Attendance	10/10			4/4	4/4
Mr. Kennedy Ondieki (w.e.f.17.07.2020)	Member	Membership	¶		¶	¶	
		Attendance	4/8		4/6	3/4	
Hon. Ibrahim A. Saney (w.e.f.16.12.2020)	Member	Membership	¶		¶		¶
		Attendance	3/5		1/1		1/3

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The Authority's operational and financial performance

The Authority regulates, supervises and promotes development of the Insurance industry in Kenya. The Authority is in a strong cash flow position capable of meeting obligations as they fall due.

SECTION B

Authority's compliance with statutory requirements

The Authority has complied with all statutory obligations including but not limited to; remittances of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax etc within the stipulated timelines.

SECTION C

Key projects and investment decisions the Authority is planning/implementing

The Authority is currently carrying out the following projects;

i. Consumer education activities in all Counties.

The Authority is currently carrying out consumer education activities in counties across the country. During the 2020/2021 financial year the Authority conducted Trainings for Insurance Champions in five counties. Opinion leaders were trained to enable them advise members of the public within their communities and organisations on insurance matters and the role of the Authority in protecting the interest of policyholders. This is aimed at increasing awareness levels on the need and benefits of insurance in the counties

The Authority developed and disseminated IEC materials during the insurance champions trainings and other outreach activities conducted by the Authority. Infomercials were also developed and aired on television and local radio stations to educate the general public on insurance and to improve their understanding and appreciation of insurance as a mechanism for risk management. This is aimed at enhancing insurance awareness levels, increasing the uptake of insurance products and ultimately lead to increased insurance penetration.

ii. Innovation lab

The Authority's strategic plan 2018-2022 is centered on policy and market development for inclusion and enhanced access to insurance products and services. The Authority has developed an innovation hub "BimaLab" and has so far initiated a Regulatory Sandbox "BimaBox" to harness innovation that will

create synergies and efficiencies within the insurance sector with the purpose of financial inclusion and enhanced access to insurance products and services. Harnessing technology is one of the levers the Authority aims to use to deliver on our mandate of increasing insurance penetration in Kenya.

SECTION D

Major risks facing the Authority

The Authority is mandated to regulate, supervise and promote the development of the insurance industry in Kenya. The strategic priority remains protection of the insurance policyholders and beneficiaries which is backed by a fair, safe and stable insurance industry. The following are the key risks facing the Authority:

i. Dissatisfied insurance consumers

Dissatisfaction of insurance consumers may be as a result of interruption of service delivery. The new normal involves remote working which has increased the turnaround time in service delivery as well as denied consumers the personal touch that they would otherwise have experienced in normal times where physical distancing is not required.

The Authority has responded by requiring insurers to provide platforms for selling and offering insurance services to existing and new customers including access to a dedicated telephone line to handle complaints and grievances.

Internally, the Authority has enabled remote working for staff via secure virtual private network (VPN) connections and developed a daily tracking tool to assess productivity levels. Interaction with consumers has been made possible through other means that exclude face to face meetings. This is mainly through emails, telephone calls and virtual meetings. Customers who visit the office and require face to face interaction are served through a glass partition. It is also a requirement that staff and customers have their masks properly worn at all times.

ii. Failure of insurance companies to meet obligations

The global economy has been impacted by the COVID-19 pandemic. This is likely to affect liquidity of insurers resulting in delayed payment of claims.

The Authority has responded by issuing guidance to insurers and is collecting data to assess the actual impact on their performance. The Authority continues to address complaints made against insurers in a bid to ensure consumers are treated fairly.

iii. Business interruption

The Authority relies heavily on human capital and technology to deliver its services. There has been a freeze on promotions, recruitment and capital expenditure since 2013. This has affected staffing levels which has remained at

70% of the approved establishment. It has also affected replacement of ageing equipment which is critical in effective performance of information systems.

The Authority continues to seek approvals to hire staff as well as incur capital expenditure, however, delays continue to be experienced. A waiver of the requirements of the 2013 circular would pave way for ensuring there is timely replacement of staff who leave and equipment that has outlived its usefulness.

SECTION E

Material arrears in statutory/financial obligations

The Authority pays all statutory and financial obligations when due and as such there are no arrears.

SECTION F

Financial impropriety and serious governance issues

There are no issues of financial impropriety reported by any board committee or external auditors. There are no governance issues and no conflicts of interest at the board or top management of the Authority.

How we Played our Part in Helping Kenya to Go Green



IRA, alongside all the government ministries, departments, and parastatals, as well as private sector institutions have committed 10% of annual corporate social responsibility budget to planting and growing trees.

This is in line with H.E. President Uhuru Kenyatta's commitment to Kenyan citizens and global communities, that Kenya will achieve its constitutional target of 10% tree cover by 2022

Towards this end, we inked a five-year partnership with Kenya Forest Wildlife in 2017 to fulfill our mandate. In the face of the pandemic, IRA was still able to participate in the 4th Annual Kaptagat Tree Planting exercise which saw over 75,000 indigenous tree seedlings planted, and the community sensitized on matters of environmental protection and conservation. The event drew participation from the senior national and county government leadership, Government agencies, political leaders from the area, the private sector, the local community among other key stakeholders.

Under the same partnership, IRA donated KES. 600,000 to the Kenya Forest services to restore the degraded mangrove forest area in Tudor Creek, Mombasa County.

We were also honoured to participate in the rehabilitation of the Maasai Mau Forest, where we planted 10,000 trees.



IRA staff participate in various tree planting exercises in partnership with Kenya Forestry Service as part of its Environmental CSR Pillar

Employee welfare

The Authority has in place a Human Resource Policy & Procedures Manual which was developed to support service delivery, commitments, and obligations of the Authority to the targeted beneficiaries. The manual was reviewed and approved in May 2021 and is to be reviewed as and when necessitated but at least every three (3) years so as to be in harmony with legislation and organizational or technological changes.

The Manual sets the guidelines on recruitment and selection of members of staff, management, and development of human resources in the Authority. It is also the official means for the Authority to communicate its policies on human resource management related matters.

IRA is an equal opportunity employer and does not in its recruitment and selection process, discriminate based on gender, race, religion, ethnicity, or any other form of discrimination. The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of the Constitution are also observed alongside other policies issued by the National Cohesion and Integration Commission.

In an effort to improve skills and manage careers, the Authority has in place career progression guidelines for fair and equitable treatment of staff. Appropriate training opportunities and facilities are also provided to all members of staff without discrimination.

The Authority also recognizes that a well-functioning performance management system contributes to the overall performance and success of the organization. We have developed and implemented a Performance Management System (PMS) to enable objective measurement and attainment of organizational targets and objectives.

The PMS is an avenue for enabling the Authority measure the impact of its staff performance on the overall results of the Authority's performance. The performance management system is hinged upon the principle of aligning individual targets and measures with the Authority's goals and key performance indicators, measuring actual performance against set criteria and providing feedback to employees.

An evaluation and review of the current system is ongoing for continuous improvement.

Occupational Safety and Health

The Authority has an active policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA). IRA is committed to providing and maintaining a safe and healthy working environment for its employees and anyone who enters its premises or relates to its business operations. The Act of 2007, part VII, and the Public Health Act Chapter 242 of the laws of Kenya underpin this policy.

The purpose of the policy is to describe how IRA will go about implementing its commitment of Occupational Health and Safety (OH&S.) It specifically details the key actions and procedures required to meet this commitment, the responsibilities of the Management and employees, and the special role and functions of the health and safety committee in ensuring the health and safety of staff. To achieve improved levels of occupational health and safety, IRA's OH&S statement captures the following key tenets.

- a. Commitment to ensuring a safe and healthy working environment for all its employees
- b. Integrating OH&S activities in planning and decision making
- c. Listening to, recognizing OH&S concerns of employees, customers, and stakeholders
- d. Ensuring compliance with all relevant OH&S statutory requirements
- e. Believes that most work-related injuries and diseases are preventable and that a 'zero accident target is desirable
- f. Formulates practicable rules, regulations and guidelines to safeguard OH&S in all areas of operation and ensures compliance at all times
- g. Recognizes that its managers and supervisors have primary responsibility for providing and maintaining a work environment that is safe without risks to health.

To ensure that the health and safety management system remains effective in providing a safe and health work environment, IRA OH&S policy and procedures are reviewed periodically.

Responsible Supply Chain & Supplier Relations

As a public entity, the Authority's procurement functions comply with the requirements of Article 227 of the constitution of Kenya and other subsidiary Legislation, Regulatory and Government Circulars that are released from time to time. Article 227 requires public procurement system to be fair, equitable, transparent, competitive, and cost effective.

Procurement is a process and not an end in itself. The process cuts across all departmental boundaries within IRA as it facilitates seamless operation of implementing departmental work plans through forecasted procurement plans that are within approved budgets.

Through professionalism and good governance, the Authority's procurement department headed by the Manager, Procurement, has been in the forefront of ensuring corporate strategic objectives are achieved through acquisition of goods, works, consultancy and non-consultancy services in the most transparent and competitive process and hence achieving value for money.

Procurement processes have also been designed in a manner that implement the sustainability concept of triple bottom line commonly known as 3P's or 3 E's. These P's or Es refers to People/ Ethics, Planet/Environment and Profit/Economics. The concept enhances the Authority's procurement awareness on the need to have responsible supply chain and supplier relations.

From its inception, IRA maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices through implementing environmental and sustainability practices as explained below.

- i. IRA's procurement department is managed by procurement professionals whose qualifications are recognized in Kenya as required under Supplies Management Practitioners Act, 2007 and Public Procurement and Assets Disposal Act, 2015 (PPAD) and its Regulations of 2020 (PPADR).
- ii. Procurement processes are undertaken in a fair, equitable, transparent, competitive and cost-effective manner.
- iii. Procurement needs are advertised through open tenders or quotations given to prequalified suppliers for all eligible bidders to participate. Equal chances are offered.
- iv. To implement affirmative action, some opportunities are reserved and / or preserved for Youth, Women and Persons Living with disabilities.
- v. Procurement at IRA promotes local industries by awarding at least 40% of its procurement spend to firms owned by locals or purchasing items that are locally manufactured.
- vi. Procurement processes are undertaken by committees' who are required to work independently and give an independent opinion.
- vii. Procurement evaluation is done strictly on compliance with both mandatory and technical requirements and awards are based on merit either to bidder with the highest technical score or to the supplier with the lowest responsive bid.

- viii. The Procurement department helps user departments to come up with realistic budgets based on market knowledge of goods and services to be procured.
- ix. IRA conducts due diligence before awarding tenders to ensure they will only award contracts to reputable suppliers.
- x. The Head of Procurement is required to give professional opinion to the Chief Executive Officer (CEO) of the procurement process undertaken by the evaluation Committee.
- xi. Procurement approvals are undertaken by different personnel within different departments to enhance accountability through separation of duties.
- xii. The CEO has the final say on the contract award.
- xiii. The suppliers are paid within the stipulated credit period of 30 days subject to approval of the Inspection and Acceptance Committee.
- xiv. Disposal of unserviceable, obsolete, or surplus stocks is done in compliance with requirements of National Environmental Management Authority (NEMA)

Corporate Social Responsibility / Community Engagements

Health: Medical Camps in Malindi and Kisumu

In the period under review, IRA facilitated a free medical camp in Malindi, Kilifi County targeting 2,000 residents of Kilifi and its environs.

General Practitioners were on site to offer residents a wide cross section of health check-ups and treatments where required. The medical camp ensured residents received top-notch health services from various clinics including the eye clinic which ran screening and treatment; the nutrition clinic which tested for diabetes and hypertension, and the cancer screening clinic which ensured residents received vital information and testing for cervical,



breast and prostate. The camp also extended Voluntary Counselling and Testing for HIV, Family Planning as well as dental services.

In addition to the Kilifi Medical camp, the Authority facilitated a similar initiative in Kisumu to the tune of KES. 2,497,000. The camp in Kisumu which included a charity walk and a sensitization workshop on how to handle the visually impaired attracted large crowds. In addition to the workshop, the doctors provided eye check-ups and eyecare services.

Zeroing in on Cancer and the Terminally ill

A large majority of Kenyans are reported to be living with terminal illnesses. While accurate data from rural areas is difficult to obtain, it is estimated that 40,000 Kenyans are diagnosed with cancer every year and more than 27,000 will die from the disease within 1-2 years of being diagnosed.

As part of our dedication to making a difference in our communities, IRA supported the Jomo Kenyatta University Teaching, Referral and Research Hospital, by purchasing a Brachytherapy machine. The machine which has a capacity to treat up to eight cancer patients per day has increased accessibility to high quality treatment as well as financial relief to the patients who had to travel long distances in search of the machine.

Additionally, IRA supported three Hospices in Coast, Nairobi and Nyeri to a tune of KES. 1.25 million.

The Coast Hospice which attends to patients from six counties within the coast region i.e., Mombasa, Kilifi, Taita Taveta, Kwale, Lamu and Tana River is a charitable Organisation which was founded in 2001. Its mission is to offer holistic care for terminally ill patients with advanced cancer, AIDS and other life limiting illnesses.

To date Coast Hospice provides medical, emotional and bereavement support to approximately 350 patients and their families per month. The hospice also offers daycare services which includes hosting support group meetings for patients and their caregivers.

IRA's tradition of participating in the Nairobi Hospice Annual Charity Walk was interrupted due to COVID-19 pandemic, however we joined hands with the hospice to support its fundraising activities. IRA's donation of KES. 500,000 was allocated towards supporting the Hospice's outreach programs which include home-based care for patients who are too sick to attend the support group meetings.

The Authority's financial support of KES. 500,000 to the **Nyeri Hospice** was allocated towards operational expenses required to support cancer patients in the Mount Kenya region.



Evening out playing field by ensuring vulnerable groups have access to Education

IRA's flagship CSR project is a long-term commitment to support the Kenya Society for the Blind (KSB) which is aligned to the Authority's goal of supporting vulnerable groups.

KSB has been mandated by an Act of Parliament to conduct the following activities.

1. To promote education and welfare of Visually impaired
2. To promote treatment and prevention of avoidable blindness
3. To Promote rehabilitation of the irreversibly blind
4. To engage the public and all institutions on matters of blindness

The society executes the above mandate through

1. Education
2. Eyecare
3. Rehabilitation

IRA supports KSB financially and especially through initiatives related to education. Through IRA's support, KSB has been able to purchase assistive devices (*this is an umbrella term that includes assistive, adaptive and rehabilitative devices for people with visual disabilities*) such as braille, to ensure every learner with any kind of visual impairment has access to a quality education.

Access to assistive devices reduces inequalities and eliminates stigma and discrimination of the blind and those people living with visual impairments across the country.

The need for Braille assistive devices in Kenya is currently at a ratio 1:3. This means that for every Braille machine there are three learners with visual impairments using it. The goal is to change this ratio to 1:1 ensuring that every blind learner has access to a Braille assistive device.

160 students in Moyale, Marsabit County, were the beneficiaries of KES. 3 million donated to promote education in the County. IRA identified Qoloba Primary School as a worthy recipient of the funds required to build an administration block for the school, a kitchen and store as well as put up a fence around the school.

The school which serves as a knowledge Centre for the community has full time staff of 17 teachers who also benefited from the Authority's donation that included construction of new staff houses.

Before we closed the year, IRA heeded to an urgent appeal from the late Senator for Garissa County, Hon. Yusuf Hajj who was on a mission to increase access to free primary and Secondary education for the County's next generation leaders. The Authority donated KES. 1M towards the initiative and brought his dream to life before his demise. His son, Hon. Abdulkadir Haji has continued with his father's legacy and remains accountable to donors and well-wishers who joined hands to empower Northern Kenya's future leaders through provision of quality education for all.

Our Role in Churning out more Actuaries for the Sector

To increase the number of actuaries in the industry, IRA has continued supporting actuarial students through its annual 12-month-scholarship program. The scholarship is awarded to five actuarial students to undertake a master's degree at the Cass Business School in the UK, London. So far it has supported more than 47 students through their master's programs.

Initiatives in Response to National Emergencies and disasters

During the height of the Covid-19 pandemic last year, IRA participated in several initiatives to support government efforts towards mitigating the effects of the global health crisis. The Authority contributed to the national Covid-19 kitty through cash donations as well as provision of free insurance services to the frontline health workers.



Our Partnership with the Administration Police

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 1 to 31, which comprise of the statement of financial position as at 30 June, 2021, the statement of financial performance, statement of changes in net assets,

statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Insurance Regulatory Authority as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, 2020 (Revised) and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Insurance Regulatory Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


 CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi

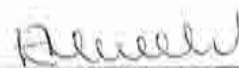
08 April, 2022




STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2021

	Notes	2021 KES.	2020 KES.
ASSETS			
CURRENT ASSETS			
Cash and bank balances	18	45,525,106	22,075,478
Receivable from exchange transactions	19	44,931,843	39,857,325
Investments	20	1,222,213,982	821,000,000
Inventories	21	<u>1,011,561</u>	<u>1,505,052</u>
		<u>1,313,682,492</u>	<u>884,437,855</u>
NON-CURRENT ASSETS			
Property, plant and equipment	23	132,736,942	154,266,371
Intangible assets	24	25,553,761	39,767,962
Investment	25	<u>359,360,432</u>	<u>328,220,500</u>
		<u>517,651,135</u>	<u>522,254,833</u>
TOTAL ASSETS		<u>1,831,333,627</u>	<u>1,406,692,688</u>
CURRENT LIABILITIES			
Payables from exchange transactions	26	144,634,615	150,046,710
Payable to Consolidated Fund	17	723,941,406	461,742,430
Provisions	27	<u>78,182,509</u>	<u>54,764,071</u>
		<u>946,758,530</u>	<u>666,553,211</u>
NET ASSETS		<u>884,575,097</u>	<u>740,139,477</u>
RESERVES			
General Reserves		184,575,097	40,139,477
Building Reserves		<u>700,000,000</u>	<u>700,000,000</u>
TOTAL		<u>884,575,097</u>	<u>740,139,477</u>


 Hon Abdirahin Abdi, MGH
 Chairman


 CPA Esther Musyoki
 Ag. Chief Manager Finance
 ICPAK no. 3374


 Godfrey Kiptum, MBS
 Commissioner of Insurance
 & Chief Executive Officer

The notes on page 8 to 30 form an integral part of these financial statements

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE, 2021**

RESERVES	GENERAL RESERVES	BUILDING RESERVE	TOTAL
1 July, 2019	1,919,236,626		=
Changes in reserves for 2020			
Transfer to Consolidated Fund	(1,400,000,000)	-	(1,400,000,000)
Surplus for the year	220,902,851		220,902,851
Transfer to building reserve	<u>(700,000,000)</u>	<u>700,000,000</u>	<u>-</u>
Balance as at 30th June, 2020	<u>40,139,477</u>	<u>700,000,000</u>	<u>740,139,477</u>
1 July, 2020	40,139,477	700,000,000	740,139,477
Changes in reserves for 2021			
Surplus for the year	<u>144,435,620</u>	-	<u>144,435,620</u>
Balance as at 30th June, 2021	<u>184,575,097</u>	<u>700,000,000</u>	<u>884,575,097</u>



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2021 KES.	2020 KES.
Cash flow from operating activities			
Cash receipts from customers		1,982,507,209	1,735,124,897
Payment to suppliers and employees		<u>(874,274,806)</u>	<u>(729,018,882)</u>
Net Cash from Operating Activities		1,108,232,403	1,006,106,015
Cash flow from investing activities			
Purchase of property, plant and equipment	23	(35,109,050)	(132,133,364)
Purchase of Intangible asses	24	(4,444,192)	(8,575,884)
Purchase/Sale of investments	25	(31,139,932)	966,195,366
Surplus paid to Consolidated Fund		(681,742,429)	(1,927,150,861)
Interest received		68,866,810	100,710,158
Net cash used in investing Activities		<u>(683,568,793)</u>	<u>(1,000,954,585)</u>
Net(decrease) increase in cash & cash equivalents		424,663,610	5,151,430
Cash & cash equivalent at the beginning		843,075,478	837,924,048
Cash & cash equivalent at the end	22	<u>1,267,739,088</u>	<u>843,075,478</u>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE, 2021**

	2021 KES BUDGET	2021 KES ACTUAL	VARIANCE %
INCOME			
Insurance premium levy	1,771,659,290	1,957,871,636	11%
Interest income	20,000,000	68,866,811	244%
Licence fees	13,001,000	22,456,966	73%
Other Miscellaneous income		<u>2,178,606</u>	<u>100%</u>
	<u>1,804,660,290</u>	<u>2,051,374,019</u>	<u>14%</u>
CAPITAL EXPENDITURE	57,747,600	39,553,242	32%
OPERATING EXPENDITURE			
Board members expenses	29,999,400	31,579,548	-5%
Personnel emoluments	524,176,600	378,419,571	28%
Other personnel costs	105,500,000	84,419,818	20%
Development of Insurance industry	158,635,000	114,963,874	28%
Office supplies and expenses	28,413,027	14,449,410	49%
Transport and travel expenses	41,100,000	33,857,320	18%
Public relations	90,300,000	86,901,572	4%
Utilities and ICT expenses	25,000,000	22,186,962	11%
Office rent and office services	80,607,734	60,071,361	25%
Consultancy & professional services	43,000,000	29,678,961	31%
Sinking fund provision (Depreciation)	45,500,000	75,296,871	-65%
Other expenses	<u>58,000,000</u>	<u>31,171,726</u>	<u>46%</u>
TOTAL RECURRENT EXPENDITURE	1,230,231,761	962,996,993	22%
TOTAL EXPENDITURE	<u>1,287,979,361</u>	<u>1,002,550,235</u>	<u>22%</u>
SURPLUS FOR THE YEAR	<u>516,680,909</u>	<u>1,048,823,784</u>	<u>103%</u>

NOTES ON SIGNIFICANT VARIANCES BETWEEN BUDGET AND ACTUAL

Major variances in this context refer to expenditure items which vary from the budget by more than 10%

a) Premium Levy- Kes 1,958million (Budget- Kes 1,772million)

The increase in gross premium written down was higher than budgeted.

b) Interest income- Kes. 69 million (Budget – Kes. 20million)

The Authority had planned to purchase office premises within the year. The procurement was not successful and funds meant for this purpose were invested.

c) License Fees – Kes. 22 million (Budget- Kes. 13million)

A number of industry players applied for their license past the 30th September deadline hence were required to pay double the amount as penalty.

d) Miscellaneous income – Kes. 2 million (Budget- nil)

This is income from the sale of obsolete items.

e) Capital Expenditure- Kes 39million (Budget- Kes 58million)

Partitioning work for 3rd floor was not been done as planned.

f) Personnel Emoluments - Kes 378million (Budget Kes 524million)

Budget based on a staff establishment of 109. Staff in position are currently 82.

Approval to recruit 3 chief managers is still pending.

g) Other Personnel Emoluments - Kes 84 million (Budget Kes 106million)

Some members of staff were not able to attend trainings due to COVID 19 guidelines.

h) Office Supplies- Kes 14million (Budget Kes 28million)

This vote is underspend because in the period under review a number of staff were working from home.

i) Transport and Travel Expenses – Kes 34million (Budget Kes 41million)

There has been no international travel due to Ministry of Health Covid 19 guidelines and restrictions.

j) Office Rent & Office Services – Kes 60million (Budget 81million)

The 3rd floor was not occupied and paid for as planned. The space has now been acquired and payment will be done after the grace period given for partitioning works

k) Utilities and ICT Expenses- Kes 22million (Budget Kes 25million)

Some of the software licenses were not renewed within the year as planned.

l) Other Expenses- Kes 31million (Budget Kes 58million)

There was minimal training and travel for IFIU due to Ministry of Health COVID 19 guidelines and restrictions.

m) Development of Insurance Industry – Kes 115million (Budget Kes 159million)

Bima lab activities and research on actuarial studies on appropriate premium rates were not done.

n) Consultancy - Kes 30million (Budget Kes 43million)

This amount included legal fees of kes. 20 million. Lawyers were not engaged as envisaged.

O) Depreciation- Kes 75million (Budget Kes 46million)

The actual provision for depreciation was higher than the amount budgeted for.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE,
2021**

1. General information

Insurance Regulatory Authority is established by and derives its Authority and accountability from the Insurance Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to regulate, supervise and promote the insurance industry in Kenya.

2. Statement of compliance and basis of preparation

The financial statements have been prepared on historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires the management to exercise judgement in the process of applying the Authority's accounting policies.

The financial statements have been prepared and presented in Kenya shillings, which is the functional and reporting currency of the Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the Insurance Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all years presented.

3. Adoption of new and revised standards

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Standard	Impact
Other Improvements to IPSAS	<p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p>

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p>



Standard	Effective date and impact:
	<ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>

(i) Early adoption of standards

The Authority did not early - adopt any new or amended standards in year 2020/2021.

4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Income recognition

i) Revenue from non-exchange transactions

Premium levy Penalties and licence fees

The Authority recognizes revenues from levies, penalties and fees when due. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income for each period.

(b) Budget information

The budget for financial year 2020-2021 was approved by The National Treasury and Planning via letter Ref DGIPE/FB/225 dated 30th June 2020.

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(c) Taxes

Under regulation 219(2) of the Public Finance Management Act No. 18 of 2012, the Authority is required to remit 90% of its surplus funds to the Consolidated Fund. As a result, the Authority is exempted from paying income tax under regulation 219(3) of the same act.

(d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

(e) Property, Plant, Equipment and Computer Depreciation

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life. Assets purchased in the first three quarters of the financial year are depreciated fully for the year while those purchased in the last quarter are not depreciated in the financial year under review.

The Depreciation rates used are as follows.

Motor Vehicle	25.00%
Partitions & Furniture	12.50%
Computer Equipment	33.30%
Other Equipment	25.00%

(f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Authority. Assets held under a

finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Authority also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

(g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite. Amortisation is calculated on the cost of each asset on a straight-line basis at an annual rate of 33.3%. Assets purchased in the first three quarters of the financial year are amortised fully for the year while those purchased in the last quarter are not amortised in the financial year under review.

(h) Research and development costs

The Authority expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Authority can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any

accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

(i) Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults).

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

(j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

(k) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements. If it has become virtually certain that an outflow of economic benefit will arise and the liability value can be measured reliably, the liability is recognized in the financial statements.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

(l) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. General reserves represent surplus held over the years. Building reserve represent an appropriation from the general reserve towards the purchase of the Authority's office premises.

(m) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

(n) Employee benefits

Retirement benefit plans

The Authority operates a defined contribution pension scheme for all its eligible employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The scheme is funded from contributions from both the Authority and employees. The assets of this scheme are held in a separate trustee administered scheme.

The Authority also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and are currently limited to Kes.200 per employee per month.

Contributions by the Authority to staff retirement benefit schemes are charged to the statement of financial performance as they fall due.

(o) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

(p) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

(q) Related parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the

Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Commissioner of Insurance & Chief Executive Officer and senior managers.

(r) Service concession arrangements

The Authority analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise - any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

(t) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

(u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. Significant judgments and sources of estimation uncertainty

In preparing of the Authority's financial statements in conformity with IPSAS, management makes judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material

adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts retained by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 27.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

6. Insurance premium levy

	2021	2020
	KES	KES
Premium Levy	1,957,871,637	1,709,189,760
	<u>1,957,871,637</u>	<u>1,709,189,760</u>

As per section 197A (1) (2a) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Cabinet Secretary. The rate is currently at 1%.

7. License fees

Insurance companies	150,000	1,150,000
Brokers	4,010,000	3,650,000
Loss Assessors	1,782,000	1,870,302
Agents	15,973,666	18,217,588
Other intermediaries	501,300	906,068
Branches	40,000	-
	<u>22,456,966</u>	<u>25,793,958</u>

This is an annual fee paid by all licensed industry players. The licence fees for insurance and re-insurance companies were discontinued in the financial year

2018/2019. The fees charged are Kes.10,000 for brokers and medical insurance providers, Kes. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and Kes.1,000 for insurance agents. For annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline, currently 30th September.

8. Miscellaneous income

	2021	2020
	KES	KES
Sale of obsolete items	<u>2,178,606</u>	<u>141,179</u>
This is income from the sale of obsolete items.	<u>2,178,606</u>	<u>141,179</u>

9. Interest income

Treasury bonds	-	46,264,875
Treasury bills	20,407,919	18,412,333
Fixed deposits	47,562,681	35,009,041
Current accounts	<u>896,210</u>	<u>1,023,909</u>
	<u>68,866,810</u>	<u>100,710,158</u>

This comprises interest earned on investment in treasury bonds, treasury bills, fixed deposit accounts and current accounts. Interest on treasury bonds and treasury bills is recognized on a straight-line basis over the maturity period of the investments.

10. Board expenses

Honoraria	960,000	960,000
Sitting allowances	8,360,000	6,640,000
Seminars, travel and accommodation	11,783,367	17,428,451
Meeting, entertainment & Others	744,222	396,891
Telephone expenses	269,000	263,000
Medical GPA	684,088	789,585
Other expenses	<u>8,778,871</u>	<u>118,000</u>
	<u>31,579,548</u>	<u>26,595,927</u>

The Board Chairman receives a monthly honorarium of Kes.80,000 per month.

11. Employee costs

	2021	2020
	KES	KES
Basic salary	223,178,079	198,064,643
House allowances	33,264,840	31,634,838
Transport allowances	29,447,311	27,665,968
Contract/part-time staff	8,346,488	10,453,660
Special duty and extraneous allowance	18,064,373	15,021,667
Pension and gratuity	46,703,880	40,901,548
Medical	26,139,876	25,920,595
Group insurance-life and accident	4,351,274	2,611,719
Training and capacity building	31,818,455	65,718,684
Subscriptions	1,921,868	1,261,262
Internship	160,000	1,091,400
Staff uniforms and welfare	19,918,344	15,990,454
Staff bonus and awards	16,424,600	105,000
Leave allowance	<u>3,100,000</u>	<u>2,890,000</u>
	<u>462,839,388</u>	<u>439,331,438</u>
Number of employees at year end	83	73

12. Development of the insurance industry

Seminars for insurance industry	4,656,460	15,410,508
Consumer education	67,735,096	38,102,724
Scholarship for Actuarial students	33,113,728	40,421,988
Research	<u>9,458,590</u>	<u>5,600,000</u>
	<u>114,963,874</u>	<u>99,535,220</u>

13. General expenses

Office supplies and expenses	14,449,410	20,762,860
Transport and travel	31,954,060	42,098,176
Public relations	86,901,573	65,822,210
ICT expenses	22,186,962	21,017,299
Bank charges	1,422,119	1,516,528
Office rent and office services	58,326,295	58,642,519
IFIU and Tribunal expenses	<u>31,171,726</u>	<u>36,019,408</u>
	<u>246,412,145</u>	<u>245,879,000</u>

14. Repairs and maintenance costs

Repair and service-office equipment	1,745,066	3,512,522
Vehicle repair and service	<u>1,903,259</u>	<u>1,921,290</u>
	<u>3,648,325</u>	<u>5,433,812</u>

15. Contracted services

	2021	2020
	KES	KES
Consultancy	25,256,842	38,184,731
Audit fees	<u>3,000,000</u>	<u>1,000,000</u>
	<u>28,256,842</u>	<u>39,184,731</u>

16. Depreciation and amortisation

Depreciation	56,638,478	20,196,678
Amortisation	<u>18,658,393</u>	<u>17,032,968</u>
	<u>75,296,871</u>	<u>37,229,646</u>

17. (a) Transfer to the consolidated fund

Surplus for the year	1,088,377,026	942,645,281
Less purchase of assets	<u>(39,553,242)</u>	<u>(140,709,248)</u>
Realised surplus funds	<u>1,048,823,784</u>	<u>801,936,033</u>
90% of realised surplus funds	<u>943,941,406</u>	<u>721,742,430</u>

b) Amount due to consolidated fund

90% of realised Surplus	943,941,406	721,742,430
Advance payment	<u>(220,000,000)</u>	<u>(260,000,000)</u>
Amount Due	<u>723,941,406</u>	<u>461,742,430</u>

18. Cash and bank balances

NBK Account No. 0100306688400	9,881,894	652,368
KCB Ltd Account No. 1202647413	326,175	15,016,505
NCBA bank Account no. 1000009632	27,024,113	5,149,524
NCBA Account no. 8189570014	8,257,309	1,057,081
Petty cash	<u>35,615</u>	<u>200,000</u>
	<u>45,525,106</u>	<u>22,075,478</u>

19. Receivables from exchange transactions

Prepayments	6,444,426	6,010,692
Debtors	-	123,442
Staff imprests /advances	1,187,530	1,656,437
Deposits	25,696,754	25,696,754
Interest receivable	<u>11,603,133</u>	<u>6,370,000</u>
	<u>44,931,843</u>	<u>39,857,325</u>

20. Short term investments

	2021	2020
	KES	KES
Fixed deposit -KCB	-	30,000,000
Fixed deposit -Co-op	115,000,000	160,000,000
Fixed deposit -NCBA	408,778,082	536,000,000
Fixed deposit -National Bank	60,000,000	95,000,000
Treasury bills	<u>638,435,900</u>	<u>-</u>
	<u>1,222,213,982</u>	<u>821,000,000</u>

The effective interest rate on the Treasury bill as at 30 June, 2021 was 7%.

21. Inventories

Stationery	<u>1,011,561</u>	<u>1,505,052</u>
	<u>1,011,561</u>	<u>1,505,052</u>

22. Cash and cash equivalents

This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.

Cash and current account balances	45,525,106	22,075,478
Short term investments	583,778,082	821,000,000
Treasury Bills	<u>638,435,900</u>	<u>-</u>
	<u>1,267,739,088</u>	<u>843,075,478</u>

23. Property, plant & equipment

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KES.	KES.	KES.	KES.	KES.	KES.
At 1 July, 2019	60,905,954	56,023,727	39,948,920	108,494,301	26,248,333	291,621,235
Add: additions during the year	25,027,800	105,402,181	-	964,786	738,597	132,133,364
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2020	85,933,754	161,425,908	39,948,920	109,459,087	26,986,930	423,754,599
Depreciation:						
At 1 July, 2019	48,905,954	34,889,710	36,878,363	105,552,593	23,064,930	249,291,550
Charge for the year	6,000,000	8,398,946	3,070,557	1,799,195	927,980	20,196,678
Disposal	-	-	-	-	-	-
At 30 June, 2020	54,905,954	43,288,656	39,948,920	107,351,788	23,992,910	269,488,228
Net book value:						
At 30 June 2020	31,027,800	118,137,252	-	2,107,299	2,994,020	154,266,371
At 1 July, 2020	85,933,754	161,425,908	39,948,920	109,459,087	26,986,930	423,754,599
Add: additions during the year	-	24,814,015	4,462,560	3,214,035	2,618,440	35,109,050
Less: disposals during the year	(4,344,400)	-	-	-	-	(4,344,400)
At 30 June 2021	81,589,354	186,239,923	44,411,480	112,673,122	29,605,370	454,519,249
Depreciation:						
At 1 July, 2020	54,905,954	43,288,656	39,948,920	107,351,788	23,992,910	269,488,228
Charge for the year	12,256,950	42,568,995	-	765,102	1,047,431	56,638,478
Disposal	(4,344,400)	-	-	-	-	(4,344,400)
At 30 June, 2021	62,818,504	85,857,651	39,948,920	108,116,890	25,040,341	321,782,306
Net book value:						
At 30 June 2021	18,770,850	100,382,272	4,462,560	4,556,232	4,565,029	132,736,943

At 30 JUNE, 2021, Assets worth Kes.258,026,650 were fully depreciated. The notional depreciation charge on these assets is Kes 59,534,787. (As at 30th June 2019 the fully depreciated assets were worth Kes 253,566,896 with a notional depreciation of Kes.57,520,118).

**24. Intangible assets****Computer software**

	KES.	TOTAL KES.
Cost		
At 1 July 2019	78,111,872	78,111,872
Add: additions during the year	8,575,884	8,575,884
Less: disposals during the year		
At 30 June 2020	<u>86,687,756</u>	<u>86,687,756</u>
Amortization:		
At 1 July, 2019	29,886,826	29,886,826
Charge for the year	<u>17,032,968</u>	<u>17,032,968</u>
Disposal		
At 30 June, 2020	<u>46,919,794</u>	<u>46,919,794</u>
Net book value:		
At 30 June 2020	39,767,962	39,767,962
At 1 July 2020	86,687,756	86,687,756
Add: additions during the year	4,444,192	4,444,192
Less: disposals during the year		
At 30 June 2021	<u>91,131,948</u>	<u>91,131,948</u>
Amortization:		
At 1 July, 2020	46,919,794	46,919,794
Charge for the year	<u>18,658,393</u>	<u>18,658,393</u>
Disposal		
At 30 June, 2021	<u>65,578,187</u>	<u>65,578,187</u>
Net book value:		
At 30 June 2021	25,553,761	25,553,761

25. Long term investments

These are fixed deposits under lien for the Staff mortgage and car loans.

	2021 KES	2020 KES
National bank	14,745,466	35,579,510
Co-operative Bank	80,457,999	30,098,775
Kenya Commercial Bank	<u>264,156,967</u>	<u>262,542,215</u>
	<u>359,360,432</u>	<u>328,220,500</u>

26. Payables from exchange transactions

Supplier invoices	133,446,967	138,533,464
Other payables	<u>11,187,648</u>	<u>11,513,246</u>
	<u>144,634,615</u>	<u>150,046,710</u>

27. Provisions

	2021	2020
	KES	KES
Audit fees	2,000,000	2,000,000
Legal fees	22,000,592	22,000,592
Provision for bonus (staff & Board)	24,554,600	-
Contingent liability	20,792,452	24,086,890
Leave Commutation	-	1,097,523
Gratuity	<u>8,834,865</u>	<u>5,579,066</u>
	<u>78,182,509</u>	<u>54,764,071</u>

28. Building Reserve

Building reserve represent an appropriation from the general reserve towards the purchase of the Authority's office premises.

29. Related party transactions

The following transactions took place with related parties

Board (Allowances & other expenses)	31,579,548	26,595,927
Top management (Remuneration)	<u>44,035,807</u>	<u>40,497,400</u>
	<u>75,615,355</u>	<u>67,093,327</u>

30. Cash generated from operations

	note		
Surplus for the year before tax		1,088,377,026	942,645,281
Adjusted for:			
Depreciation and amortisation	17	75,296,871	37,229,646
Gains and losses on disposal of assets		-	-
Contribution to provisions	28	23,418,438	35,327,724
Finance income	10	(68,866,810)	(100,710,158)
Finance cost		-	-
Working Capital adjustments			
(Increase)/ Decrease in inventory	22	493,491	(190,716)
(Increase)/ Decrease in receivables	20	(5,074,510)	30,378,874
Increase / (Decrease) in payables	27	(5,412,095)	61,425,364
Net cash flow from operating activities		<u>1,108,232,411</u>	<u>1,006,106,015</u>

31. Financial instruments and risk management policies

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Authority's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the Board of Directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Authority's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk without taking account of the value of any collateral obtained and is made up as follows:

	Total amount Kes	Fully performing Kes	Past due Kes	Impaired Kes
At 30 June 2021				
Receivables from exchange transactions	44,931,843	44,676,443	255,400	-
Bank balances	45,525,106	45,525,106	-	-
Total	90,456,949	90,201,549	255,400	-
At 30 June 2020				
Receivables from exchange transactions	39,857,325	39,601,925	255,400	-
Bank balances	22,075,478	22,075,478	-	-
Total	61,932,803	61,677,403	255,400	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Authority has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Board of Directors sets the Authority's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Authority's Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Authority.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kes	Kes	Kes	Kes
At 30 June 2021				
Trade payables	116,220,703	806,673	27,607,239	144,634,615
Provisions	26,925,916	542,632	50,713,961	78,182,509
Total	143,146,619	1,349,305	78,321,200	222,817,124
At 30 June 2020				
Trade payables	124,095,355	3,549,576	22,401,779	150,046,710
Provisions	35,327,724	-	19,436,347	54,734,071
Total	159,423,079	3,549,576	41,838,126	204,780,781

(iii) Market risk

The Board of Directors has put in place an internal audit and risk management function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall

responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Authority's audit and risk management unit is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

Such exposures arise through purchase of goods and services that are done in currencies other than the local currency. The Authority does not have transactional currency exposures.

b) Interest rate risk

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Authority's deposits.

Management of interest rate risk

Although this risk is unlikely to occur, it is mitigated by placing deposits with well-established financial institutions that offer favourable interest rates and also approved by The National Treasury and Planning.

iv) Capital Risk Management

The objective of the Authority's capital risk management is to safeguard its ability to continue as a going concern. The Authority's capital structure comprises mainly reserves with no debt.

32. Contingent Asset

The Authority sponsored a student for the Actuarial scholarship in the financial year 2018/2019 at a total cost of Kes. 4,729,485. Upon completion of the training, the trainee left the Authority before completion of the bonding period. Out of the total cost of the training, the trainee has only refunded the Authority Kes. 690,518 and Kes. 4,038,966 remains outstanding. The Authority will recognise the amount once it is received from the trainee.

33. Contingent liabilities

Waweru Gatonye Advocates, one of the Authority's lawyers was awarded by the court Kes. 265 million in legal fees. The Authority has appealed against this award. A provision of Kes. 20 million has been made for this case.

Gonzaga consultant, the Quantity Surveyor in partitioning works at Zepre in 2009 has also filed a suit against the Authority for services rendered. A provision of Kes. 859,075 has also been made in the accounts.

34. Operating leases

The Authority has a cancellable three operating leases of six years for office space in the second, sixth, seventh, tenth and ground floors with ZEP RE PTA. The rents are payable quarterly in advance.

35. Commitments

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30th June, 2020.

	2021 KES.	2020 KES
Purchase/service orders	<u>39,844,278</u>	<u>44,884,404</u>
	<u>39,844,278</u>	<u>44,884,404</u>

36. Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority is to remit Kes 943,941,406 (financial year 2020 Kes 721,742,430).

37. Events after the reporting date

There were no material adjusting and non- adjusting events after the reporting period.

38. Ultimate and holding Entity

The Authority is a State Corporation under The National Treasury and Planning. Its ultimate parent is the Government of Kenya.

39. Currency

The financial statements are presented in Kenya Shillings (KES).

**PROGRESS ON FOLLOW UP OF PRIOR PERIOD AUDITOR
RECOMMENDATIONS**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
<p>There were no pending prior period auditor recommendations.</p>					



Hon Abdirahin H. Abdi, MGH
Chairman



Godfrey Kipsum, MBS
Commissioner of Insurance &
Chief Executive Officer

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<p>There were no pending prior period auditor recommendations.</p>					



**Hon Abdirahin H. Abdi, MGH
Chairman**



**Godfrey Kipiani, MBS
Commissioner of Insurance &
Chief Executive Officer**